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Title: "Sandra O'Leary Lauds Improving Ties to New Zealand."

Remarks by senior State Department official Sandra **O'Leary** before a Senate Foreign Relation Committee regarding the positive effects of **New Zealand** Prime Minister James Bolger's visit to Washington. (950329)

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Text: *EPF301 03/29/95 SANDRA **O'LEARY** LAUDS IMPROVING TIES TO **NEW ZEALAND** (Text: **O'Leary** testimony before Senate panel 3/29/95) (2550) Washington, March 29 — Sandra **O'Leary**, deputy assistant secretary of state for East Asia and Pacific affairs, announced that **New Zealand** Prime Minister James Bolger's visit to Washington this week "provides us with a new beginning to build upon positive developments" in bilateral relations.

O'Leary testified before the Senate Foreign Relations Committee Subcommittee on Asian and Pacific Affairs, which held hearings today on "Market Reform in **New Zealand**."

Responding to questioning, **O'Leary** characterized trade relations between the United States and **New Zealand** as excellent. "We do not now have any trade irritants from our side," **O'Leary** said.

On the security side, **O'Leary** reviewed progress in bilateral relations since 1986. She cited the "exhaustive study by **New Zealand's** Somers Commission" that found "U.S. nuclear-propelled ships to be absolutely safe" and the U.S. decision to remove a nuclear capability from most of its ships as important steps toward the revival of senior level contacts. But **O'Leary** added that both countries must persevere to settle the "unfinished business" of restoring a military alliance.

Although **O'Leary** speculated that progress over the nuclear issue was unlikely in coming months, she hoped for a resolution in the "medium term."

Following is the text of **O'Leary's** remarks as prepared for delivery: (begin text) THE UNITED STATES AND **NEW ZEALAND** STATEMENT BY SANDRA **O'LEARY**, DEPUTY ASSISTANT SECRETARY, BUREAU OF EAST ASIA AND PACIFIC AFFAIRS, DEPARTMENT OF STATE

BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE, THE ASIAN AND PACIFIC AFFAIRS SUBCOMMITTEE

March 29, **1995** It is a pleasure to have this opportunity to meet with the Subcommittee to discuss recent developments affecting the economy of **New Zealand**. Over the last decade, as Senators are perhaps aware, **New Zealand** has indeed undertaken impressive reforms that have greatly strengthened its economy, reforms that I will be happy to address with you in some detail this morning. Before doing so, however, it might be useful as well to review briefly the course of our relationship with **New Zealand** in recent years.

U.S.-NEW ZEALAND RELATIONS Mr. Chairman, you may recall that the Administration completed a review of U.S. policy toward **New Zealand** in February of last year. This was the first such review undertaken since the mid-1980s, when **New Zealand** adopted policies, later enacted as legislation, that effectively block visits by U.S. Navy ships to that country. The **New Zealand** legislation does this in two ways. It prohibits visits by nuclear-powered vessels; some 40 percent of U.S. Navy combatants are nuclear-propelled. It also requires the Prime Minister to determine that ships and aircraft are not carrying nuclear weapons before granting them permission to visit — which conflicts with our longstanding, global policy of neither confirming nor denying the presence or absence of nuclear weapons on particular aircraft or ships (NCND).

Given the inability of U.S. ships to visit **New Zealand**, we suspended our defense obligations to that country under the ANZUS alliance in 1986. Needless to say, this was not an easy decision. **New Zealand** long had been one of our closest allies, a country whose men and women have fought alongside U.S. forces in virtually every major conflict this century. And yet it was clearly impossible to sustain defense obligations to a country which no longer permitted access by U.S. Navy ships, given that our ability to carry out those commitments rested in large measure on the naval aspects of the ANZUS Alliance relationship. Similarly, since U.S. ships could not visit **New Zealand**, it followed that U.S. forces could not exercise with their **New Zealand** Defense Force counterparts, and joint military exercises were ended as well.

Much has happened since **New Zealand** passed its anti-nuclear legislation, Mr. Chairman. The Soviet Union has collapsed, bringing the Cold War to an end. The absence of East-West rivalry has dramatically reduced the possibility of a major nuclear conflict. We have removed the nuclear capability from most of our ships, although our NCND policy remains in place. An exhaustive study issued by **New Zealand's** Somers Commission has found U.S. nuclear-propelled Navy ships to be absolutely safe. We are working closely with **New Zealand** to conclude a Comprehensive Test Ban Treaty and to achieve an indefinite extension of the Nuclear Non-Proliferation Treaty. The U.S. is also honoring all aspects of the South Pacific Nuclear-Weapons Free Zone. In other areas, the U.S. and **New Zealand** are cooperating closely on a range of issues involving the establishment of a new World Trade Organization, the Asia Pacific Economic Cooperation forum, the ASEAN Regional Forum, peacekeeping operations, and our Antarctic programs (the U.S. Antarctic Program is based in Christchurch, **New Zealand**). **New Zealand's** early contribution to the Korean Peninsula Energy Development Organization is but the latest example of areas where our two countries are cooperating to meet challenges to international peace and security.

In APEC, the GNZ wants to see measurable progress towards free trade in 2010/2020, and is reassured that in **1995** the organization has provided active, effective leadership towards that end. **New Zealand's** continued commitment to unilateral deregulation provides a solid model for APEC liberalization.

It was against this background, then, that the Administration decided in February of last year, as the result of our policy review, to restore senior level contacts between officials of our two governments for discussions on political, strategic, and broad security matters. It seemed to us, Mr. Chairman, that the dramatic changes outlined above, many of which stem from U.S. initiatives, offered an opportunity to take another look at how we might work constructively on security issues with **New Zealand** as part of our joint effort to meet the challenges and opportunities of the post Cold-War era.

Despite the encouraging developments of recent years, the world remains an unsettled place. Democratic countries still need to work together to preserve peace and to promote our mutual prosperity. **New Zealand** and the United States are natural partners, and we would like to see our cooperation extend once again across all aspects of our respective policies.

In this spirit, our February 1994 policy review set the stage for a several important visits by senior officials of our two countries:

- In April 1994, U.S. CINCPAC Admiral Larson held very useful discussions in Wellington with senior **New Zealand** civilian and military officials.
- That same month, and later in January **1995**, Deputy Prime Minister (and Foreign Minister) Don McKinnon met with Secretary Christopher in Washington.
- In August 1994, Assistant Secretary for East Asian and Pacific Affairs Winston Lord met with Prime Minister Bolger and other leaders in **New Zealand**.
- In December 1994, **New Zealand** Chief of Defense Forces Admiral Teagle held talks with U.S. CINCPAC Admiral Macke in Hawaii and with Joint Chief of Staff Chairman General Shalikashvili in Washington.
- In late January and early February of this year, Deputy Secretary of State Talbott visited **New Zealand**.

And on Monday of this week, President Clinton held discussions with Prime Minister Bolger here in Washington, the first such meeting to take place at the White House for eleven years. Prime Minister Bolger also met with Secretary Christopher over lunch and called on Defense Secretary Perry at the Pentagon before meeting yesterday with various members of the Congressional leadership.

Mr. Chairman, as the Administration indicated in our February 18, 1994 statement announcing the outcome of our policy review, "It is our hope that our decision to upgrade contacts with **New Zealand**, along with the sweeping changes in the international environment, will lead over time to resolution of the issues that impede restoration of the full relationship which our two countries enjoyed before 1986." We are prepared to be patient, of course. But we do believe it can be possible for our two democratic countries to reestablish the kinds of close security **ties** that previously served our joint interests so effectively.

NEW ZEALAND ECONOMIC REFORMS For more than a year now, **New Zealand** has been enjoying the fruits of economic restructuring begun over a decade ago by the Labour Party, now the main opposition party in the parliament. While many of the hard decisions were taken by the Labour Party governments in the 1980's, the National Party continued these policies after defeating Labour in 1990.

Before discussing **New Zealand's** economic reforms in detail, however, it might be instructive to recall the state of that nation's economy in the early 1980s. From having been one of the three or four richest countries on a per-capita basis in the early 1950s, **New Zealand** fell to about twentieth in the international rankings by the end of the 1970s. Between 1975 and 1982 there was virtually no growth, while inflation averaged about 15 percent per year. Unemployment also emerged during this period as a major problem. A virtually full employment nation since the end of the war, it was only in 1978 that **New Zealand's** unemployment rate rose over one percent, from which it rapidly rose until more than seven percent of the population was without work by the early 1980s. Although sharply rising energy costs and a deterioration in the terms of trade for the country's major primary exports played a role, much of the problem stemmed from the fact that **New Zealand** had become one of the world's most highly regulated economies.

Licenses were required to import a wide range of consumer goods from beer to autos. It took six weeks to have a business phone connected by the government telephone company, and in real terms phone calls cost four times what they do today. Reserve Bank permission was required to subscribe to an overseas magazine. There were two sorts of refrigerator available on local markets — both made by the same company to the same specifications. It was against the law to make carpets from anything but wool. Only the government broadcast television programs. And the railroads employed four times as many people to move the same amount of goods as now.

This then was the situation facing the new Labour Government when it took office in 1984. Although that government was responsible for implementing the policy changes that blocked U.S. Navy ship visits, it also embarked on a sweeping program of change for the economy, reforms that have been continued by Prime Minister Bolger's National Party Government.

Briefly, the reforms of the 1980's and early 1990's consisted of slashing high protective tariffs and abolishing import quotas, ending expensive agricultural subsidies, passing the Reserve Bank Act to fight inflation, removing foreign exchange controls and floating the **New Zealand** dollar, passing the employment contracts act to reduce labor market rigidities, and selling off (frequently to American' companies) government-owned monopolies and other government economic enterprises. The results have been startling, but only in 1993 and 1994 were these policies fully proven successful, and even now not all New Zealanders would agree.

More internationally competitive as a result of economic reform, the **New Zealand** economy is enjoying the best combination of conditions for decades. GDP growth was 4.9 percent for the year ending September 30th. Inflation (19 percent in 1987) was 2.8 percent for the year through December 31. The government ended the 1993-94 budget year on June 30 with the first budget surplus since 1978, and with growing surpluses forecast for the next four years (US\$1.5 billion in 1994/95, growing to US\$4.8 billion in 1997/98), which the government will use mostly to reduce foreign debt. After two or three years (if not earlier) the government hopes to introduce income tax cuts. Unemployment, at 10.4 percent in December 1992, had fallen to 7.5 percent by December 1994.

Business and consumer confidence, while starting to fall as inflation and interest rates climb, remain positive, and most economists expect growth to continue at about 3.5 percent for the next few years. The Reserve Bank Act, as currently administered, mandates underlying inflation at two percent or less, and the bank expects headline inflation to peak just above four percent in mid **1995**.

New Zealand's international economic agenda is aimed at increasing the opportunity for further expansion of competitive **New Zealand** exports. To that end, **New Zealand** wishes to see the new World Trade Organization succeed, to promote free trade and investment flows, and to see APEC (Asia Pacific Economic Cooperation) prosper as a vehicle for concrete trade liberalization in the Asia Pacific region.

The U.S. is **New Zealand's** second largest supplier of imports, US\$1.5 billion in the year through January **1995**. Major U.S. exports to **New Zealand** include machinery, aircraft and parts, other transportation equipment and parts, plastics, chemicals and fertilizers, and optical/medical/surgical equipment.

The United States is **New Zealand's** third largest export market, with sales totalling US\$1.4 billion. Major **New Zealand** exports to the United States include meat, fish, dairy, timber, wool, and other agricultural products. The latest U.S. Department of Commerce statistics show that our trade surplus with **New Zealand** increased from US\$41 million in 1993 to US\$88 million in 1994.

While reliable foreign direct investment stock figures are always difficult to obtain for any country, including **New Zealand**, we believe that the U.S. is the second largest foreign direct investor in **New Zealand** with about US\$3.25 billion in 1994. Australia is the largest investor, and the U.K. is third. Recent notable U.S. investments have been H.J. Heinz's takeover of the largest **New Zealand** food processor in 1992; ITT Rayonier's purchase of government-owned forests in 1992; Ameritech and Bell Atlantic's purchase of the former government telephone company in 1990-93; Wisconsin Central's investment in the former government-owned railroad in 1993; and acquisition of the former government computing center and the banks' clearing house computer company by EDS in 1994. As these investments indicate, **New Zealand** welcomes foreign direct investment.

The U.S.-**New Zealand** bilateral economic relationship is close and cooperative. We largely have similar or parallel goals in APEC, GATT/WTO and other multilateral economic fora. In 1994, the GNZ consistently supported U.S. positions on multilateral and bilateral economic issues.

While bilateral economic relations are strong and cooperative, **New Zealand** does oppose the recent expansion of the United States Dairy Export Incentive Program (DEIP) into Asian markets. As a major unsubsidized exporter of dairy products, it does not want to see subsidized U.S. exports in Asian/Pacific markets. **New Zealand** recognizes that the U.S. will ensure that the DEIP program is consistent with our commitments in the GATT Uruguay Round, and understands that the USG has attempted to avoid disrupting traditional **New Zealand** export markets.

We have a mechanism in place to discuss and resolve bilateral economic issues — the Trade and Investment Framework Agreement of October 1992. We held consultations under this agreement in Washington in April 1993, and in Wellington in November 1994.

Mr. Chairman, this concludes my prepared remarks covering the current state of U.S.-**New Zealand** relations and economic reforms implemented by the **New Zealand** governments since the mid-1980s. I would be happy to answer any questions you might have. Thank you.

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